

ANNUAL ACCOUNTABILITY REPORT

FOR FISCAL YEAR 2002

**GRADY L. PATTERSON, JR.
STATE TREASURER**

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I. EXECUTIVE SUMMARY

I.1. MISSION AND VALUES

MISSION STATEMENT

The mission of the State Treasurer's Office is to serve the citizens of South Carolina by providing the most efficient and effective banking and financial management services for State Government.

To this end, the State Treasurer and his professional, responsive staff will utilize a vast network of resources, industry knowledge and technology to provide high quality service in the areas of: receipt and disbursement of funds; investment and cash management; debt issuance and debt service; management of all State banking relations; administration of the Unclaimed Property Program and the College Savings Plans; and provide advice and counsel to local governments on issues related to investments, debt and other fiscal matters.

VALUES

The values of the office are courtesy, responsiveness, hard work, initiative, accuracy, professionalism, and integrity.

I.2. STRATEGIC GOALS

Our number one priority is to utilize available technology and to aggressively seek new technology to enhance, improve and ensure the reliability and accountability of the State's financial resources. A second priority is to have a well-trained and engaged workforce, so that each member of the staff is properly equipped, trained, and enabled to perform their job with excellence. Current year emphasis was on partnering with key suppliers and other state agencies to streamline processes and train the workforce, allowing us to maintain a high quality of service despite reduced funding.

I.3. BARRIERS TO SUCCESS

The financial stress under which the office operated last year continued into the current fiscal year, severely limiting the opportunities for advances in technology, and professional training for the staff. Planned technology upgrades were postponed and resources were available for only the most mission critical upgrades.

Morale of the work force continued to be of great concern to the Leadership. The loss of two senior managers during the fiscal year and one of their key backups, coupled with three employees who took advantage of the early separation incentive offered, created a significant void in the institutional knowledge and experience of the staff. Due to the hiring freeze, only one

of the positions was declared mission critical and subsequently filled. Duties of the other four positions were assumed by existing staff, putting quite a stress on an already embattled staff. The patience and understanding of the other state agencies, especially the Comptroller General's Office, while staff assumed these new duties, made the transition much smoother than would otherwise have been possible.

I.4. MAJOR ACHIEVEMENTS

Major achievements for the State Treasurer's Office (STO) during FY02 were:

- ◆ Maintenance of the coveted AAA Credit Rating
- ◆ Out-performance of benchmarks in investment of State, Local and Retirement Funds
- ◆ Implementation of the 529 Tuition Savings Plan known as "Future Scholar"
- ◆ Revisions to the collateral statutes to allow Letters of Credit from qualified sources, a more cost efficient option for our bank service providers to secure bank deposits
- ◆ Further automation of key banking functions, including enhanced reconciliation processes and improved fraud detection systems

The program results on pages 19-36 demonstrate the continued trends of this office in increasing timeliness, efficiency and customer focus on the delivery of services.

II. BUSINESS OVERVIEW

II.1. The State Treasurer's Office has 70.00 FTE's (including 17.00 from other funds). As of June 30, 2002, the office had 60 permanent employees (11.60 paid by other funds) and 3 temporary employees. 4 employees work a reduced hour schedule.

II.2. The office is located on the 1st and 2nd floors of the Wade Hampton Office Building.

II.3. The expenditure/appropriation chart that follows outlines the major spending categories of the budget. In FY02 the legislature passed Proviso 72.97 which allowed state agencies to utilize other special revenue funds to maintain critical programs previously funded with General Fund appropriations for agency wide expenses. The Agency utilized the proviso in FY02.

Base Budget Expenditures and Appropriations

	00-01 Actual Expenditures		01-02 Actual Expenditures		02-03 Appropriations Act	
Major Budget Categories	Total Funds	General Funds	Total Funds	General Funds	Total Funds	General Funds
Personal Service	\$2,932,596	\$2,431,990	\$2,583,555	\$2,121,537	\$3,066,542	\$2,125,986
Other Operating	\$9,156,980	\$1,522,549	\$3,274,092	\$2,415,518	\$1,439,540	\$465,299
Special Items	\$	\$	\$10,109,513	\$	\$3,016,250	\$
Permanent Improvements	\$	\$	\$	\$	\$	\$
Case Services	\$	\$	\$	\$	\$	\$
Distributions to Subdivisions	\$	\$	\$	\$	\$	\$
Fringe Benefits	\$730,305	\$599,919	\$736,805	\$606,655	\$874,444	\$631,294
Non-recurring	\$	\$	\$	\$	\$	\$
Total	\$12,819,881	\$4,554,458	\$16,703,965	\$5,143,710	\$8,396,776	\$3,222,579

(1)

(2)

(1) Includes \$9.8 million for pay-off Installment Prepayment Program notes refinanced.

(2) Includes \$2 million expenditures related to the Student Loan Corporation.

Other Expenditures

Sources of Funds	00-01 Actual Expenditures	01-02 Actual Expenditures
Supplemental Bills	\$147,633,887	\$219,182,110
Capital Reserve Funds	\$	\$
Bonds	\$	\$

II.4. Key customers of the State Treasurer's Office are: state agencies, local governments, state employees and retirees, the state's vendors, taxpayers, holders of the State's Mini-bonds, owners and beneficiaries of College Savings Plans, the Legislature, and the citizens of South Carolina.

II.5. Key suppliers are other state agencies, banks and other financial service providers, the administrators of College Savings Plans, vendors of services and supplies, technology vendors, software providers and partners, holders of unclaimed property, and internet service providers.

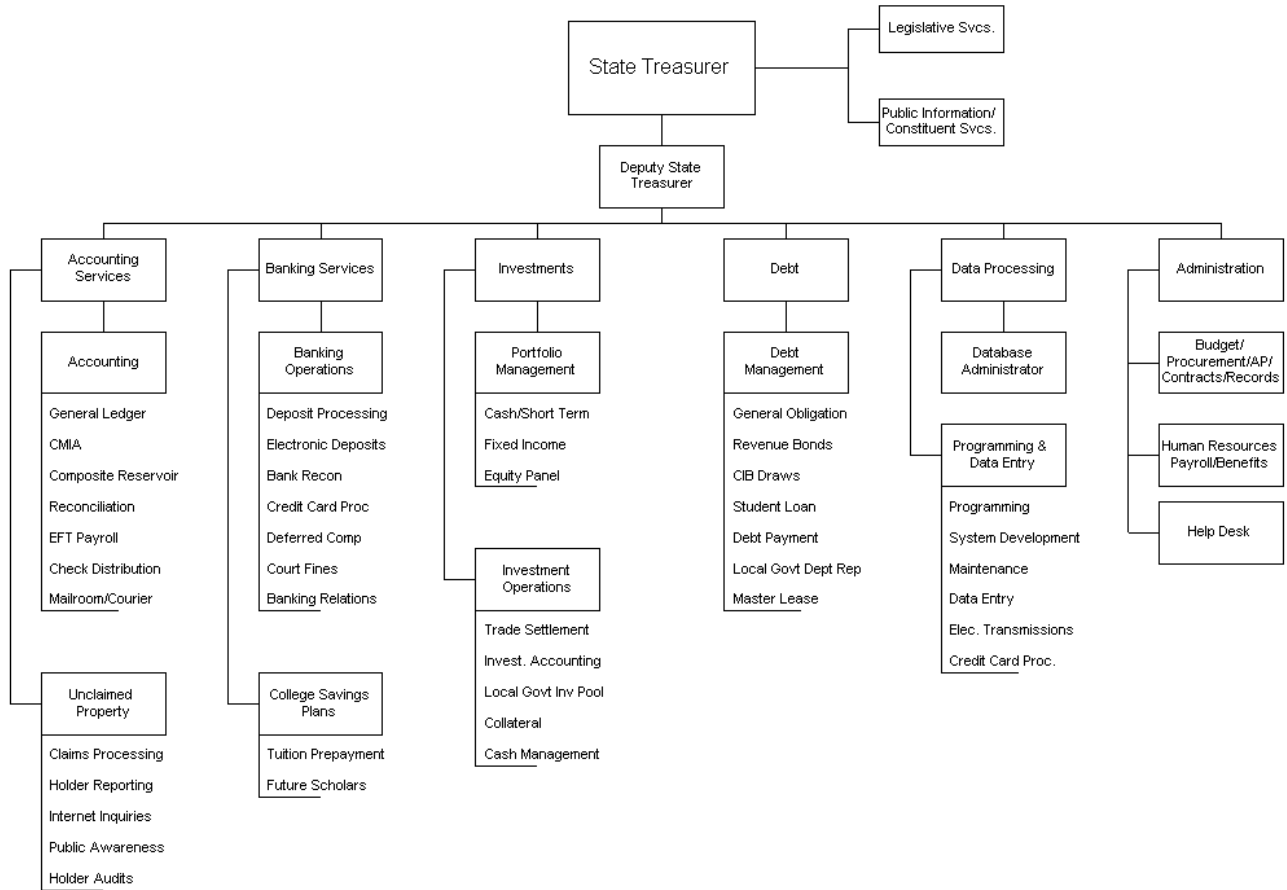
II.6. The major services of the agency are:

1. State-wide banking and accounting services for all agencies and institutions
2. Investment services for all state funds and the fixed income portion of Retirement System funds
3. Debt issuance and management services for general obligation, revenue, and special debt issues
4. Administration of the State's Unclaimed Property Program, and
5. Administration of the two College Savings Plans: Tuition Prepayment Program and Future Scholar

II.7. The office is organized in 4 production/service divisions: Accounting and Unclaimed Property, Banking and the College Savings Plans, Investments, and Debt. There are 3 support divisions: Administration, Data Processing, and Legislative and Constituent Services. The Executive Division oversees the functions of all divisions.

The organizational chart that follows indicates the primary functions of each division.

State Treasurer's Office



III. MALCOLM BALDRIGE AWARD CRITERIA

III.1. LEADERSHIP

Questions 1-7 are addressed in this section.

In alignment with the Governor's stated goals, the State Treasurer has established the following priorities of the office:

- Support **education improvement** through School Bonds, Mini-bonds, and administration of the College Savings Plans.
- Bolster **economic development** through maintenance of the State's AAA credit rating, and promotion of the State's banking and financial expertise.
- Promote **greater efficiency** in Government by streamlining processes with an emphasis on customer service.

At June 30, 2002, the State Treasurer's Office had issued \$650 million of the \$750 million authorized School Facilities Bonds, providing much-needed funds to address a critical shortage of modern classrooms around the state. (The remaining \$100 million were issued in July, 2002.) The bonds are secured with the State's stellar credit rating, meaning such huge projects are achieved without increasing taxes or fees.

Since 1994, the State has issued \$79,220,200 in mini-bonds. The proceeds have been used for State capital improvement projects such as college additions and renovations, prisons, and harbor dredging as authorized by the Legislature. The mini-bonds are a safe, tax-free investment that provide the citizens of South Carolina a vehicle for saving while they benefit from the capital improvements funded by the sale of these bonds.

The South Carolina Tuition Prepayment Program (SCTPP), which was transferred to the State Treasurer's Office in 2000, continues to grow. This program guarantees that the money paid today will cover a child's tuition at an in-state public school when the child is ready for college. SCTPP helps provide the opportunity for children to go to college, gives parents a peace-of-mind that college can be affordable, simplifies the tuition invoicing process for the universities, and fosters a sense that higher education is important to statewide economic development. In March of this year, a second College Savings Plan, "Future Scholar" was implemented. It complements the prepaid plan while offering a flexible alternative, utilizing the Section 529 federal tax benefits for families who choose this college savings option.

South Carolina is now one of only eight states (down from 9 last year) with a AAA credit rating from all three of the major rating firms in the nation. Maintenance of the AAA rating benefits the State through savings on borrowing and also has a trickle down effect to other entities in the State. School districts and other entities benefit from the State's credit worthiness in their own borrowings. In reaffirming the AAA rating, the credit agencies cited South Carolina's "extremely sound financial structure", many of the features of which were initiated by the State Treasurer.

In response to the financial crisis experienced nationwide, the State Treasurer initiated several procedures to protect the assets of the Retirement Systems and to strengthen the standards for investors. The State Treasurer was instrumental in the passage of Emergency Procedures for the

investments of the Retirement Systems under the management of outside investment firms. These procedures, adopted by the Budget and Control Board on March 26, 2002, streamline the process for taking immediate action should it be necessary to safeguard the systems assets. In another initiative, the State Treasurer called for stricter standards for investors. His proposal is a major initiative in protecting state taxpayer funds and public pension funds from the risks of conflicts of interest.

III.2. STRATEGIC PLANNING

Questions 1-3 are addressed in this section

We have identified harnessing new technology as the way to increase efficiency in a measurable and meaningful manner. Wherever constitutionally and statutorily possible, the State Treasurer's Office is attempting to create a "paperless" work environment by capitalizing on new technologies.

This Strategic Planning Objective meets several requirements we identified prior to its implementation:

1. It aligns with our existing Mission Statement and meets the needs of those we serve.
2. It creates an environment of communication and innovation in which each employee can seek new ways to do required functions.
3. It gives the agency quicker response times (and eliminates the need for some responses) to customer needs.
4. By increasing efficiency we save money.
5. It gives the agency flexibility to address problems more quickly by assigning resources not available previously.
6. By meeting higher efficiency standards, the State Treasurer's Office provides for greater accuracy, responsiveness, and professionalism in its duties.

During the past fiscal year, strategic planning, resource allocation, and electronic solutions were more critical than ever in allowing the shrinking workforce to keep up with increasing demand for services. The planning process included a plan by each manager to eliminate nonessential functions in order to focus on the most critical. The plans addressed the impact on the customer and how to offer them electronic alternatives to accessing the data and services previously provided by more paper or people intense delivery methods.

The Strategic Planning Objective is consistently moved forward by a monthly meeting of senior staff to analyze needs, performance, and air suggestions or concerns from staff and customers. When needed, problems and possibilities are addressed through "teams" that collect information and build an action plan.

The Strategic Planning Objective helps the State Treasurer's Office by giving basic and measurable criteria to identify success. As we move forward, our office continues to look for key areas that will help us move closer to a "paperless", more efficient agency.

III.3. CUSTOMER FOCUS

Questions 1-6 are addressed in this section.

The State Treasurer's Office relies on one-on-one information gathering to improve service to its' customers. We do that through participation in conferences and forums, state fairs and senior citizens' events, meetings with financial institutions and state agencies, as well as public meetings attended by the State Treasurer and his staff. Requests and information garnered from these listening and learning opportunities allowed our office to tailor our services.

Throughout the State, the Treasurer's Office deals with the public on a wide range of issues. Most often we receive inquiries on tax refund checks, paychecks, deferred compensation questions, and requests about individual programs such as: Unclaimed Property, College Savings Plans, and Mini-Bonds.

Most of our office programs are detailed on the State Treasurer's Office web site. The questions answered and information provided on the site reflect the most frequently asked questions received by the State Treasurer's Office. Many times we can answer questions just by pointing a person to a specific page on our new web site. Our office has made it a priority to continually make links, downloadable documents, and other information available to reduce costs and response times.

The State Treasurer's Office web site was designed with evolution in mind. We continue to explore statutory changes that might allow information that was previously transmitted through more expensive means to be posted on the web site, instead. The format of the current site is adaptable to the future needs and opportunities that will arise.

Legislative matters are handled through a dedicated staff available to provide research and serve as a resource on matters related to this office and the State as a whole. Several issues required significant research and support during the 2002 legislative session, including implementation of the 529 College Savings Plan, changes to court revenue collection and reporting requirements, updates to investment and collateral statutes, and the annual appropriation process including related debt issues.

Ongoing communication with State agencies provides feedback on how their requirements and expectations can best be fulfilled. The office regularly participates in special projects to improve statewide processes. This year, representatives of the office continued to serve on committees studying electronic banking, GASB 34 implementation, and the court revenue and distribution process. The office makes annual presentations to the Governmental Finance Officers Association at both their fall and spring conferences and uses those forums to not only disseminate information to others, but to receive information from these customers on how we can best serve them. Additionally this year, office staff participated in training events for magistrates, clerks of court and municipal finance officers regarding changes to the Court Fine process, and served as the instructor for two cash management conferences.

III.4. INFORMATION AND ANALYSIS

III.4.1 Performance measures are incorporated in all operations of the office. The measures used are selected by management to:

1. Track compliance with legal requirements where applicable or with externally imposed requirements such as financial statement or regulatory compliance.
2. Monitor compliance with management directives, goals, or objectives
3. Measure success of efficiency measures implemented
4. Measure performance against industry benchmarks
5. Indicate trends in meeting customer expectations
6. Set priorities for resource allocation.

III.4.2 Accuracy of data is assured in most instances through reconciliation and confirmation with external sources:

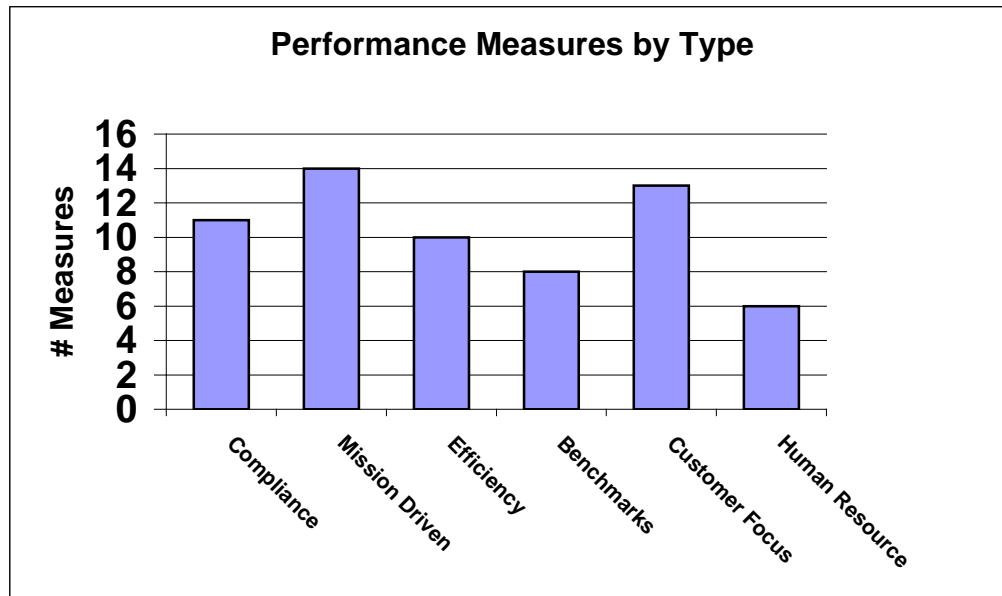
- Statewide accounting data is reconciled daily to the Office of the Comptroller.
- Banking data is confirmed with the depository bank, custodian of investments, and the counter-party to transactions.
- The status of investment portfolios and performance results is measured by at least three external sources in addition to the internal process: the custodial Bank, and the independent investment advisor, and Investment Panel's consultant for Retirement portfolios.
- Local Government Investment Pool transactions are confirmed with Pool participants through daily confirmations of transactions and monthly statements.
- Information on debt issues and payments is monitored and confirmed by bond counsel, financial advisors, independent paying agents, bond holders, and the institutions served.
- Internal administrative data such as budget status, procurement information, and payroll and personnel transactions is confirmed with statewide reporting systems and subjected to routine audit.

Overall the agency data is subjected to annual audit directly by at least 5 audit teams, including:
Statewide GAAP Audit Team for cash, investments, debt, and data processing control
Agreed Upon Procedures audit of the agency
Local Government Investment Pool GAAP audit
Independent auditors for the South Carolina Retirement Systems
Independent auditors for the Tobacco Authority

Indirectly, agency information is subjected to audit repeatedly through the audit confirmation process of the various agencies and institutions for which we serve as the State's bank.

III.4.3 A recent review of key performance indicators shows the majority of measures used are in the areas of compliance, mission accomplishment, and customer focus. This is consistent with the nature of the office where most functions are delegated to it by statute, with few programs at the discretion of the Treasurer.

The number of efficiency measures is indicative of the streamlining efforts adopted during the year and the emphasis on measuring their effectiveness.



III.4.4 Comparative data and information is selected and used based on an intentional search for best practices and benchmarks relevant to our mission. Participation in national organizations such as National Association of State Auditors, Comptrollers and Treasurers (NASACT), National Association of State Treasurer's (NAST), and other professional organizations in banking, cash management, investments, unclaimed property, and college savings plans provides exposure to "best practices", many of which have been implemented. During the year two new benchmarking measures were added: one for securities lending and one for rates paid on state borrowing. Details can be found in Section 7: Business Results.

III.5 HUMAN RESOURCE FOCUS

The agency is committed to promoting a culture of high performance, learning and employee gratification in a safe environment. The Senior Management Team portrays a forward thinking leadership in an ever-changing environment and has pledged to recruit highly qualified, ethical and diverse individuals. The State Treasurer and the Senior Management are committed to serve as models of these beliefs. This culture is demonstrated in every facet of our business, externally and internally, through an open-door policy, formal and informal communication, teamwork, equal treatment, customer focus and recognition. The Human Resource area more recently has been focused on identifying ways to use existing staff and develop programs and initiatives that would allow the Agency to absorb vacancies, save money and continue to meet the overall objectives of the Agency. These efforts have been agency wide and have incorporated ideas and suggestions from every level of staff. Through the use of this input, the Agency, to date, has been able to avoid imposing a Reduction in Force during extremely challenging budget constraints.

With the tenuous budget situation, the State Treasurer's emphasis on a well-trained, professional workforce and his support of a one-on-one coaching program with Senior Management has enabled our agency to continue to meet its mission and provide exceptional customer service. This was accomplished even though we experienced the loss of two key senior managers, additional staff resignations and the continuation of a hiring freeze. This fiscal year has presented some very challenging situations for the Agency but the continuous efforts by Senior Management and staff to ensure that cross-training was a priority has enabled us to develop highly skilled and versatile employees. Such versatility allowed us to absorb vacancies and realign skilled and trained staff members to other areas in order to use our resources as efficiently and effectively as possible. In several instances, employees have crossed divisional lines, been reassigned or have absorbed additional duties in order to meet work demands.

Our work team consist of 53.0 State funded FTE's, 17.0 Other funded FTE's and 3 temporary employees. The Agency has lost 8 employees since last fiscal year and has filled only three positions identified as being critical to the mission of the Agency in the past two years. The exit interviews reflected departure for better financial opportunities in the private sector and for personal family-related issues. Three employees resigned as part of an incentive plan offered by the Agency. We currently operate with 9.6875 FTE's vacant and we forfeited 2.75 FTE's to the State as part of our Voluntary Separation Program. Despite the freeze on hiring and the loss of employees, we are able to maintain a diverse workforce and have been ranked 9th in overall goal attainment among all State agencies in reaching our affirmative action goals. This ranking has improved from 12th last year, an accomplishment for which we are most proud, particularly in light of the current fiscal challenges.

The Agency was also able to partner with the Budget & Control Board for a "loaner" employee to assist with the Agency's local area network. This partnership lasted for six months and was critical in assuring that the Agency was able to continue progress in streamlining processes technologically and maintaining the level of technology required to meet Agency needs. Overall, this partnership allowed the agency to realize savings of approximately \$29,000.

Budget constraints also posed problems when assessing the training needs of the staff. With a very limited training budget, it became necessary for Senior Management to review the training needs of their staffs carefully in order for the agency to provide training to employees that directly affects success of their performance. The Human Resources Area established a partnership with the Department of Parks, Recreation and Tourism with training registration fees waived for participants who participated in SCPRT sponsored training sessions. This partnership provided supervisory training opportunities by certified instructors to 5 managers in the State Treasurer's Office and is crucial to the success of the realignment of resources and new supervisory leadership in the Agency. Additional partnership with the Budget and Control Board offered training in Baldrige criteria for 2 of our employees. Through continuous efforts by Senior Management and Human Resources, 52 training opportunities were realized in Fiscal Year 2001-02. Based on expenditures for training, the average cost per training session was approximately \$20.

In addition, the Agency implemented a Voluntary Furlough Program and introduced two incentive plans to employees, a Voluntary Separation Program and a Retirement Incentive Plan. The Voluntary Furlough Program was well received and generated support from the agency head and all classes of employees. The State Treasurer was the first agency head to participate in the Voluntary Furlough Program statewide. His participation, along with over 20 additional staff members including the Deputy State Treasurer, generated over \$37,000 of savings to the Agency. We had 3 participants in the Voluntary Separation Program and their participation is expected to generate over \$50,000 in savings in Fiscal Year 2002-03. The Agency has also actively promoted flexible work schedules to more easily balance employees' work and family demands. We continue to offer a part-time program should employees be interested in reducing their hours. We currently have 4 participants in that program and it has been critical in helping us reduce turnover and eliminate the loss of additional skilled workers with institutional knowledge.

Employees receive annual performance evaluations. At the beginning of each evaluation period, a planning stage document is given to each employee that outlines the duties of his/her position and identifies success criteria for the function being performed. Throughout the evaluation period, supervisors informally meet with their employees and discuss ways in which they can improve their performance and be successful in their jobs. These formal and informal sessions allow supervisors an opportunity to assess employee satisfaction and gain insight and input from employees on how to improve processes. These discussions are integral in determining better and more efficient ways to operate.

In addition to feedback regarding performance, the Senior Management has also taken steps to recognize the staff informally. Each quarter, senior management plans an event, such as an ice cream social, to bring the entire staff together and recognize the efforts of the staff and highlight accomplishments. They also hosted a hot dog cookout on the Statehouse Grounds this year for Employee Appreciation Day. On May 8, 2002 Senior Management provided, prepared and served the entire staff lunch. This event was attend by 100% of the staff and helped to improve the camaraderie and morale of the staff in what has been a very trying fiscal year. These measures were very important in that our budget situation has not permitted us to have the resources for retaining staff members. The Agency has not processed any salary actions since

January 2000 and was unable to provide our staff members a bonus for improving efficiencies for the first time in seven years. The recognition of staff for accomplishments, both formally and informally, has become an important responsibility of our Senior Management in their day-to-day activity, as we have no other resources to recognize and reward exceptional performance.

The State Treasurer's Office also actively supports community groups such as the United Way, Community Health Charities, the United Black Fund and most recently the Easter Seals. We coordinate with other agencies in our building and the surrounding complex to provide health screenings, mammograms and blood donations. We continue to partner with area universities to provide students with internship opportunities and exposure to State Government. We currently have an intern on staff from Benedict University who works with our Constituent Services Manager to coordinate a marketing effort for our Unclaimed Property Program called "Big Money Monday". This program has provided additional skilled assistance to the Agency and has served as a recruitment opportunity for the future.

III.6. PROCESS MANAGEMENT

III.6. Questions 1 and 2 are addressed in this section for each of the **key design and delivery processes**. Most of the processes in our 4 major production/service delivery areas are heavily automated and deadline driven.

In **Accounting and Banking**, deposits, distributions, reconciliations, and financial reporting are time sensitive processes with an external customer focus. Deadlines are imposed either by legal mandate, management policy, or customer expectations. Constant monitoring of deadlines, exception reports, and other performance requirements drives day-to-day operations. In order to meet growing demands with existing or sometimes dwindling resources, managers must continually look for ways to better utilize automation for processing, verifying, and reporting information.

Systems tied to non-state entities are often driving forces for automation. Office systems are electronically tied to outside banks and service providers through electronic submission of data, credit card and Internet payment systems, electronic daily confirmations, and automated reconciliation systems.

Likewise, the needs of the customer, primarily other state agencies and institutions, drive decisions as to how and when certain services will be delivered. Where possible, the State Treasurer's Office strives to standardize banking services to take advantage of efficiency of scale, while serving the diverse and sometimes unique needs to each customer.

Communication of information from state agencies to the State Treasurer's Office has traditionally been paper intensive, however, major strides have been made in the past few years to automate those processes, including implementation of the **Automated Deposits System**, **Electronic Vendor Payments**, and **Deposit Sweep** systems for Colleges and Universities. The State Treasurer's Office continues to promote these new systems and work closely with agencies to implement them as quickly as possible. Progress toward these goals and efficiencies achieved are reported in Section III.7 Business Results.

In the area of **Investments**, the office is linked by the latest technology to market information, brokers, investment advisors, custodial banks, and accounting systems. To obtain the best yield opportunities within the guidelines of approved investments, the State Treasurer's Office maintains constant communication with securities professionals and uses on-line securities quotation services. The State Treasurer also receives expert advice from an independent investment advisory firm.

BidSC, the quarterly internet auction process for bidding on Certificate of Deposits continues to be an efficient method of assuring the State the best rate on time deposits while allowing all financial institutions in the State an opportunity to bid for State deposits. In addition to the increase in return on the deposits, the system also provides an efficient method of communicating settlement information to the banks and financial institutions on those trades. Future plans include a partnering with QED, our portfolio management system, and MuniAuction, the provider of the web based system, to offer a seamless transfer of information from the MuniAuction system to the accounting system.

The overall objectives of the investment program for Retirement Funds are provided in the Statement of Investment Objectives, recommended by the Investment Panel and the State Treasurer, and adopted by the Budget & Control Board. An Annual Investment Plan, recommended by the Investment Panel and adopted by the Budget and Control Board, sets the annual objectives for the equity investments of the Retirement Funds. Objectives for investment of General and Other Funds are developed in conjunction with the State's Investment Advisor and adopted by the State Treasurer. In addition to daily monitoring and communication with investment advisors, twice monthly investment update meetings are held with the State Treasurer and investment staff to review market conditions and investment direction. Monthly performance reports assure the performance requirements are reviewed regularly and processes are adjusted as market conditions dictate.

In the area of **Debt Management**, the State Treasurer's Office continues to use state of the art technology in advertising bond sales and accepting bids via the Internet. While this process saves printing and postage costs, it more significantly broadens the universe of potential bidders on the State's debt offerings.

The legacy Debt Management System (DMS) provides a system of controls and automation for the Debt Management division. This system provides mechanisms for record keeping and reporting, and provides automation for electronic debt payment through the Automated Clearing House to the State's paying agents. It also provides functionality for tracking agency payments for authorized capital projects to ensure that timely and accurate payments are made at the time approved by the Joint Bond Review Committee and as appropriated by the General Assembly.

The DMS system adequately performs core functions for the Debt Management area, but was built on older technology and frequently requires technical intervention. It is also paper-intensive, which increases resource costs. For these reasons, the Debt Management area intends to perform an evaluation of the area's needs and analyzing those needs against the system's continuing ability to meet them. The priority of this objective is medium, as there are no impending crises or compelling unaddressed needs that would dictate immediate replacement. However, the DMS system should be evaluated for enhancement or replacement over the next 3-5 years, subject to available resources and funding.

In administering the **Unclaimed Property Program**, and the **College Savings Plans**, two programs involving direct interaction with the general citizenry, promotion and education, customer expectations and customer-oriented delivery systems are the driving forces. Internet access to data and services continues to be the focus. Both systems are managed through outside vendor software systems designed specifically for the industry. By outsourcing these unique systems, the programs are able to take advantage of upgrades and best practices applicable to other states at rates much less costly than in house systems.

III.6.3. The **support systems** of the office include Administration, Data Processing, and Legislative and Constituent Services. These systems are designed to assist the production areas by providing a well qualified work force, adequate funds to support the missions, efficient data processing systems, accurate and timely data for decision making, and information and opportunities for input on legislative matters and constituent concerns.

III.6.4. Recognizing the importance of our **key supplier relationships**, the State Treasurer has built dedicated support systems for each of these type relationships. The Manager of Banking Relationships position created in 1999 is one such example. Through regular meetings with major suppliers of banking services, particularly in times of financial stress as experienced this fiscal year, the office has been able to forge partnerships with these suppliers. These partnerships have allowed us to take advantage of their industry experience and knowledge of our operations to recommend and help implement state of the art solutions to specific banking processes.

Improved reconciliation processes and enhanced fraud detection systems were two such processes implemented this year. By further automating information flowing into and out of the State Treasurer's Office and specifically by standardizing certain file exchanges, we were able to improve the accuracy of the data and reduce the demand on our IT staff to maintain multiple systems.

Positive Pay, a system implemented in our largest check distribution accounts as an automated fraud detection system, was another efficiency measure identified and implemented through consultation with one of our banking service suppliers. Other examples instituted this year were weekly rather than daily electronic transmittal of bank statements, and enhanced internet access to banking data previously available only through costly dial up systems.

III.7. BUSINESS RESULTS

Program Name: Accounting and Banking

Program Cost:	<u>FY 1998-99</u>	<u>FY1999-00</u>	<u>FY2000-01</u>	<u>FY2001-02</u>
State Funds	\$1,495,455	\$1,550,164	\$1,011,302	\$ 779,164
FTE's:	25	26	20	17.45

Note: Program costs and FTE's in this program for FY01 and FY02 include only those costs and employees directly involved in the delivery of these services. Previous years included the cost of some functions not currently considered Accounting and Banking services.

Program Goals:

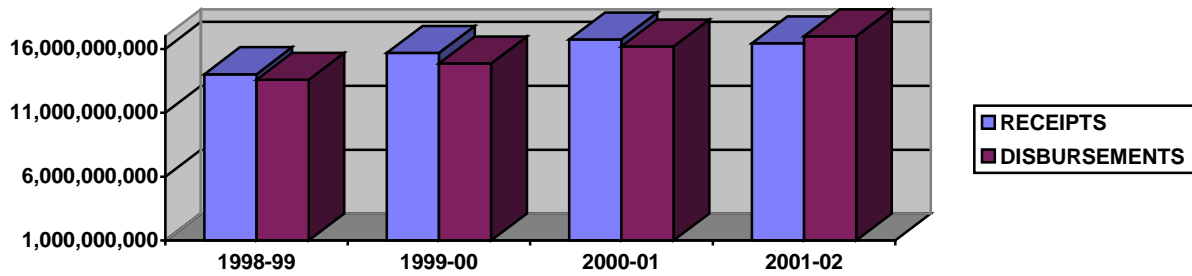
- Receive and disburse funds from all sources in a timely and accurate manner.
- Analyze FMS and STARS entries to reconcile Account Balances with the Comptroller General's Office daily.
- Provide efficient and effective financial reporting and banking services for all state agencies and institutions as required.
- Conduct timely reconciliations of bank accounts throughout the State, assuring accuracy of banking information and timely resolution of discrepancies.
- Distribute shared revenue according to statute.
- Receive and distribute Court Revenues according to the governing statutes.
- Manage the flow of deferred compensation funds from pay centers to the third party administrator assuring prompt posting of those funds to participant accounts.
- Analyze and provide input on budgetary and legislative matters related to statewide banking and accounting matters.

Objectives:

Accounting

1. Disburse all funds within 24 hours of request by increasing the number of payments made electronically (thus improving accuracy, timeliness of payment, and reducing cost to process.)
2. Distribute Aid to Subdivisions as required by law between 20th and 25th of each month.
3. Reconcile all imprest bank accounts of the State within 5 days of receipt of the bank information.
4. Process all payroll and vendor direct deposit authorizations by the following payday.
5. Reconcile all receipts, disbursements and transfers with the Comptroller Generals Office daily as required by state law. Identify and resolve all differences.
6. Reconcile the Composite Reservoir Master Bank Accounts and distribute detail account statements to state agencies by the 15th of the month.
7. Review all proposed legislation related to banking and accounting matters, and provide feedback by the deadline to respond.

COMPARISON OF RECEIPTS AND DISBURSEMENTS



Key Results:

Accounting

- 1) The introduction of Electronic Vendor Payments, increased use of EFT payments, and expansion of the procurement card program (which reduces the number of individual disbursements required), allowed existing staff to process disbursements within the goal of 24 hours from request.

Disbursements:	FY 99	%	FY 00	%	FY 01	%	FY 02	%
Paper checks processed	3,536,368	75%	3,300,086	71%	3,157,940	70%	3,048,306	70%
Electronic pmts processed	1,169,948	25%	1,345,948	29%	1,325,434	30%	1,305,058	30%
Total disbursements	4,706,316	100%	4,646,034	100%	4,483,374	100%	4,353,364	100%
FTE's in processing area	4		4		4		4	

- 2) All shared revenues were distributed according to State Treasurer's Office policy between the 20th and 25th of the month in which distribution is required by statute.
- 3) Despite the retirement of a long time employee in the check clearing accounts, cross training allowed the remaining staff to maintain the daily reconciliation process at an 8 to 10 day turnaround which is expected to improve with experience.
- 4) All payroll and vendor direct deposit requests were processed by the following payday. As of June 30, 2002, 780 vendors had signed up for Electronic Vendor Payments.
- 5) Daily reconciliations with the Comptroller General's Office were achieved, and all differences were identified and resolved.
- 6) Composite Reservoir accounts were reconciled with detailed statements distributed to the agencies by the 15th of the month.
- 7) Multiple pieces of legislation were reviewed and analyzed during the fiscal year related to Accounting and Banking matters. Additionally, the office participated in a Budget Office survey of the legislative authority for all earmarked and restricted accounts within the agency, requiring considerable man hours of research and documentation

Objectives

Banking

1. Record all deposits within 1 business day of receipt of information from the agencies.
2. Increase the number of agencies using the electronic deposit system from 4 to 10, adding at least one of the high-volume deposit agencies.
3. Reconcile all bank accounts of the State within 30 days of receipt of the bank information and reduce unrecorded deposits at June 30 to the audit tolerance for materiality of less than \$6 million.
4. Improve reconciliation process by incorporating entire bank data transmissions as well as all FMS transactions into the "Outstanding Deposit File".
5. Provide for the reporting and disbursement of existing and any new Court Revenues required by legislation.
6. Improve compliance with court revenue collection and reporting through redesign of reports and instructions, follow-up of delinquent reports, increased monitoring of local government audit reports and being responsive to requests for information or assistance.
7. Process all deferred compensation funds within 1 week of receipt by this office.

Key Results

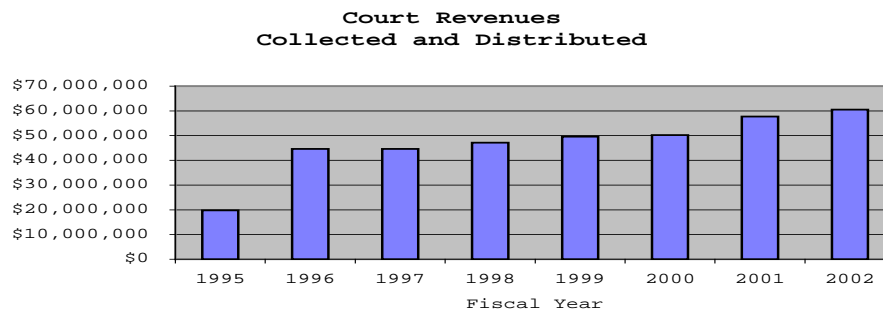
Banking

1. 11% decrease in number of manual deposits processed (primarily due to 100% increase in deposits processed via Deposit Sweep System) further reduced processing time for deposits in banking operations area and compensated for reduced number of data entry staff available for keying.

Receipts:	FY 99	%	FY 00	%	FY 01	%	FY 02	%
Manual deposits	128,352	86%	139,692	75%	143,045	76%	127,466	77%
Credit card deposits	11,748	8%	37,476	20%	28,146	15%	26,252	16%
<u>ACH deposits</u>	<u>8,778</u>	<u>6%</u>	<u>8,226</u>	<u>5%</u>	<u>16,288</u>	<u>9%</u>	<u>11,439</u>	<u>7%</u>
Total Deposits	148,878	100%	185,394	100%	187,419	100%	165,157	100%
FTE's in processing area	4		4		4		4	
Deposits processed by Institutions via Deposit Sweep					12,852		26,595	
# of Institutions on Deposit Sweep					9		11	

2. Since implementation of the Automated Deposit System at the end of fiscal year 2000, the number of agencies participating in FY01 and FY02 has grown slowly. One high-volume agency (PRT) was added in FY02, with another high-volume agency (PPP) added in July 2002 and 3 more high-volume agencies (DHEC, DSS, Mental Health) are expected to be added during 2003. Through participation in the South Carolina Enterprise Information System (SCEIS) Statewide Oversight Committee, the STO is advocating making automated deposits a feature of the new accounting system, thus eliminating the need for individual agency customization.

3. Reconciliation time for all depository accounts was reduced from 45 days to 30 days. Unrecorded revenue was also reduced to another record low of \$1.066 million, down almost 50% from last year, well below the audit tolerance level, making funds available for program purposes on a more timely basis.
4. Work was begun during FY02 to incorporate entire bank data transmissions as well as all FMS transactions into the "Outstanding Deposit File". These enhanced reconciliation processes should speed the identification of any bank errors and adjustments, and help identify unrecorded revenues.
5. One new court revenue requirement was passed during the fiscal year as well as temporary provisions that increased the assessment rate for all courts. All systems were amended to accommodate the new provisions prior to July 1. The STO provided considerable input to legislative committees related to court revenues and the final report of the Court Revenue Study Committee, of which the STO was a part, was issued with several recommendations from the report adopted during the 2002 Legislative session.
6. Compliance efforts continued in FY02. New forms and instructions concerning the changes were mailed to all County and Municipal Treasurers prior to the implementation date, and staff participated in 4 training events designed to help preparers understand the new requirements and forms. Additionally, for the first time, court revenue remittance forms and instructions have been made available on the agency's internet site. 198 local government audit reports were submitted to the STO as compared to 177 the previous year and delinquent remittance reports were reduced to 7 compared to 9 at the previous year end.



- 7) Despite continued growth in both the number and volume of deferred compensation deposits, all deposits were reconciled to the third party administrator and funds were wired within one week of receipt as required.

SC DEFERRED COMPENSATION FUNDS RECEIVED AND TRANSMITTED						
Calendar Year	1996	1997	1998	1999	2000	2001
Contributions Transmitted	\$77,466,870	\$89,601,287	\$99,817,347	\$111,031,533	\$136,202,466	\$165,655,595
Reporting Entities	520	531	547	562	572	585

Program Name: Investments

	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY2001-02</u>
Program Cost:				
State Funds	\$565,220	\$538,651	\$614,106	\$ 491,166
FTE's:	10	9	9.6	8*

*One position was transferred to the Banking Operations area, and an administrative position was not filled due to the hiring freeze. The position previously charged at 60% to this program was increased to 100% during the fiscal year.

Goals:

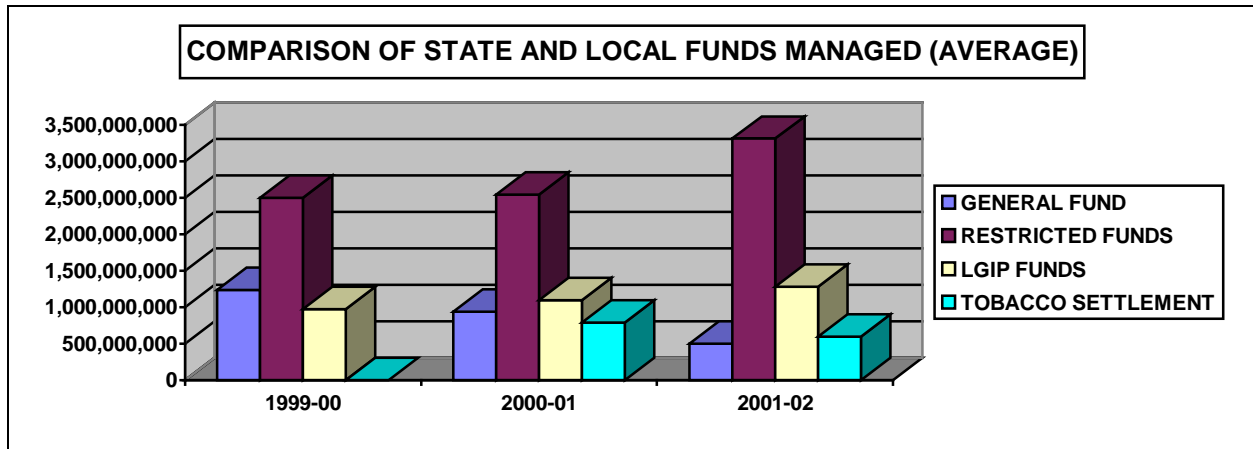
- Programs are managed in accordance with the South Carolina Code of Laws, 1976, as amended, Section 11-9-660, among other laws.
- To invest all State funds pursuant to statutory authority, including the fixed income component of the South Carolina Retirement Systems portfolios, which are structured to meet the long-term nature of pension obligations.

Objectives:

- Provide professional investment services for all funds under management through efficient utilization of available resources.
- Obtain the best return within prescribed parameters on a portfolio basis, meeting or exceeding the applicable benchmarks, while preserving capital.
- Maintain adequate liquidity for cash needs.
- Manage cash flow to optimize earnings for the State.
- Meet or exceed the budgetary earnings projection for the year.
- Maintain adequate collateral to secure State funds deposited in financial institutions.

Results:

Cost of Investment Management		
	FY2001	FY2002
Cost of Investment Program		
General Funds	\$614,106	\$491,166
SCRS for Fixed Income Portfolio Management	\$671,678	\$680,478
Total Cost	\$1,285,784	\$1,171,644
Funds Managed (excluding LGIP & Equities)	\$20,602,386,899	\$19,783,116,905
Cost as % of Funds Managed	.0062%	.0059%

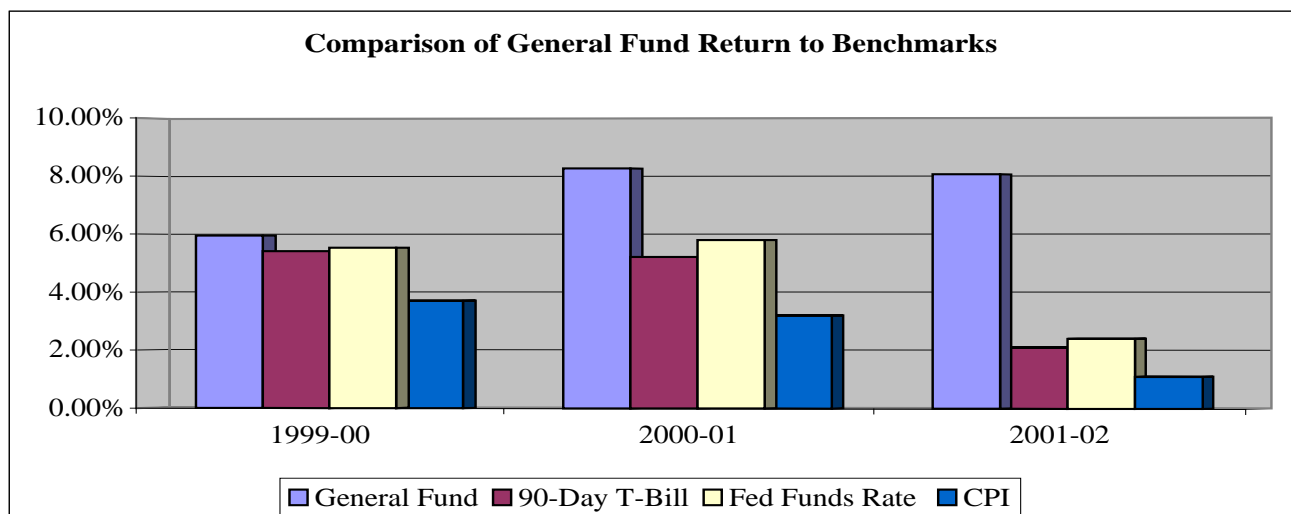


	<u>FY 1999-2000</u>	<u>FY 2000-2001</u>	<u>FY 2001-2002</u>
<u>Workload - State and Local</u>			
General Funds Managed (Average)	\$1,236,736,766	\$934,857,001	\$498,675,199
Restricted Funds Managed (Average)	\$2,499,902,027	\$2,543,585,745	\$3,314,800,967
Tobacco Funds Managed		\$785,750,514	\$596,926,115
LGIP Funds Managed (Averaged)	\$972,791,245	\$1,098,217,232	\$1,279,275,348
# State and Local Portfolios Managed	19	22*	22
Total # of Investment Trades	2,605	2,442	2,857

* 3 portfolios were added in FY01 for the Tobacco Settlement Funds

General and Local Funds Performance

- Earnings on General Fund investments were \$72,648,954 which surpassed the investment earnings projection of \$60 million by over \$12.6 million. \$15,021,969 of this income was the realized gain from the sale of securities. These sales were necessitated by the reduction in General Fund balances by approximately \$439 million for the fiscal year. Interest earned on General and Earmarked accounts is credited to the General Fund for the support of General Fund Appropriations.
- General Fund investment performance exceeded benchmarks.

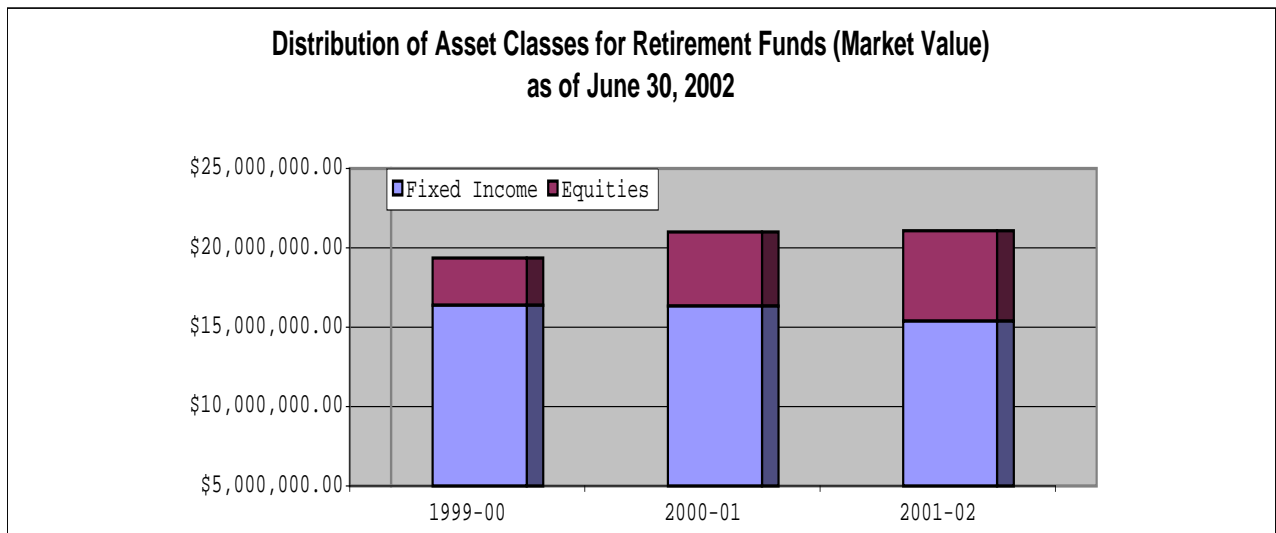


Return on General Fund Investments vs. Benchmarks

	FY 1999-2000	FY 2000-2001	FY 2001-2002
Rate of Return (Cash-Basis)	5.95%	8.26%	8.05%
<u>Benchmarks:</u>			
90-Day T-Bill Rate (12 month average)	5.41%	5.21%	2.10%
Fed Funds Rate (12 month average)	5.53%	5.79%	2.40%
Consumer Price Index	3.70%	3.20%	1.10%

- BidSC program continues to be a great success. The CD auction is held quarterly resulting in increased earnings for the State of over \$202,000 during this fiscal year.
- The State's Local Government Investment Pool (LGIP) earned a rate of 2.59% as compared to the average benchmark investment rate of 2.10% (90 day Treasury Bill Rate).
- All portfolios maintained adequate liquidity to immediately meet every cash withdrawal requested.
- All deposits were properly collateralized

Retirement Funds

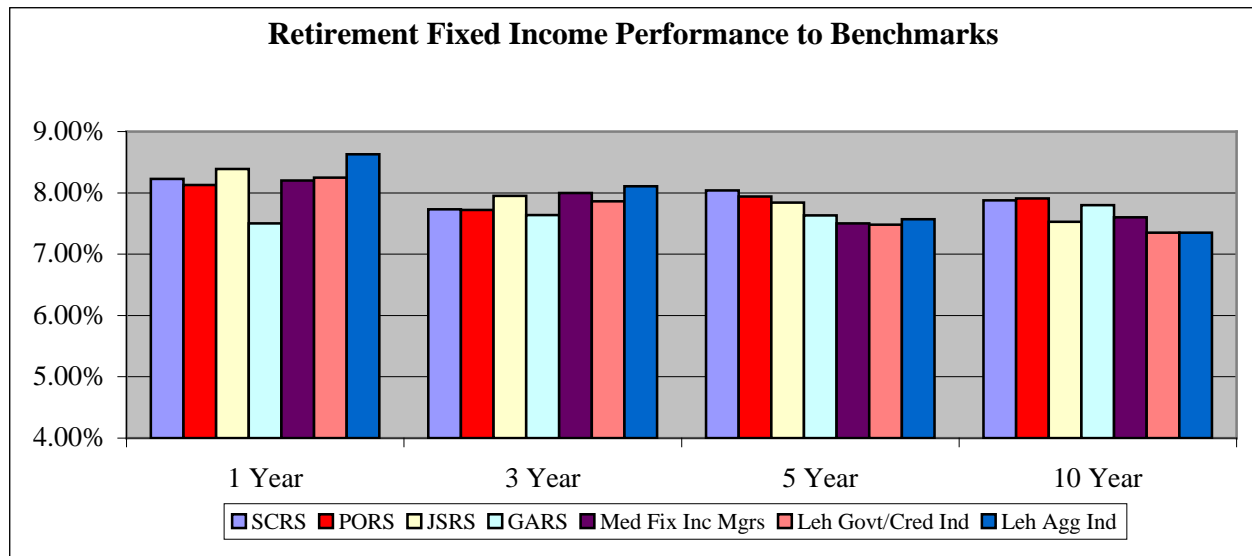


SCRS Funds at June 30th

	<u>FY 1999-2000</u>	<u>FY 2000-2001</u>	<u>FY 2001-2002</u>
Fixed Income Managed Internally	\$16,389,908,792	\$16,338,193,639	\$15,372,714,624
Equities Managed Externally	2,969,435,655	4,658,496,312	5,697,324,309
SCRS Total Funds	<u>\$19,350,271,345</u>	<u>\$20,996,689,951</u>	<u>\$21,070,038,933</u>
# Retirement Portfolios Managed (Fixed)	4	4	4
External Equity Managers	1	14	15

Retirement Fixed Income Investment Performance

SCRS Fixed Income returns exceeded the benchmarks for the 1, 5 and 10 year periods. The 3-year returns show under-performance to the benchmarks and can be mainly attributed to the requirement of holding excess cash and equivalents to fund the equity program. Returns adjusted for this excess cash exceeded all benchmarks.



Return on Retirement Fixed Income Investments vs. Benchmarks

	1 Year ¹	3 Year ¹	5 Year ¹	10 Year ²
Total Rate of Return				
SCRS	8.23%	7.73%	8.04%	7.88%
PORS	8.13%	7.72%	7.94%	7.91%
JSRS	8.39%	7.95%	7.84%	7.53%
GARS	7.50%	7.64%	7.63%	7.80%
<u>Benchmarks:</u>				
Median Fixed Income Managers ³	8.20%	8.00%	7.50%	7.60%
Lehman Govt/Credit Index ⁴	8.25%	7.86%	7.48%	7.35%
Lehman Aggregate Index ³	8.63%	8.11%	7.57%	7.35%

¹ Source: Bank of New York

² Source: Jamison Eaton & Wood

³ Source: William M. Mercer Investment Consulting, Inc.

⁴ Source: Lehman Brothers

Retirement Equity Investment Performance

The Equity Program of the Retirement Systems is administered in accordance with the Annual Investment Plan recommended by the Equity Investment Panel and approved by the Budget & Control Board.

Return on Retirement Equity Investments vs. Benchmarks¹

Passive			
State Street (S&P 500)	-17.99%	-18.00%	S & P 500
Active- Large Cap			
Core			
Wellington	-22.24%	-18.00%	S & P 500
J P Morgan	-20.74%	-18.00%	S & P 500
Value			
Flippin	-10.40%	-8.95%	Russell 1000 Value
ICAP	-9.76%	-8.95%	Russell 1000 Value
Bernstein	-7.67%	-18.00%	S & P 500
Growth			
Montag/Caldwell	-13.64%	-26.49%	Russell 1000 Growth
Peachtree	-24.90%	-26.49%	Russell 1000 Growth
Active-Smaller Cap			
Core			
Fidelity	-6.93%	-8.60%	Russell 2000
Value			
Kaplan	12.42%	8.50%	Russell 2000 Value
Boston Co.	-29.37%	6.59%	Russell 2500 Value
Growth			
Suffolk	-26.13%	-25.01%	Russell 2000 Growth
MFS	-46.20%	-25.71%	Russell 2500 Growth
Farrell ²			

¹Return numbers for managers and benchmarks are from Bank of New York

²Farrell was terminated, November 2001. The assets were then transferred to the State Street Russell 2000 fund. Since the period was less than a full year, returns for the State Street Russell 2000 fund are not reported.

Securities Lending Utilization compared to Benchmark

As of 3/31/02 (latest available)

Source: Bank of New York

Asset Class	RMA ¹ Utilization	BNY ² Utilization	RMA Spread	BNY Spread
US Govt.	79%	95%	37 bp	40 bp
US Agency	46%	60%	33 bp	36 bp
Equity/ADR	7%	24%	46 bp	48 bp
Corporates	7%	2%*	39 bp	42 bp

¹ Risk Management Association Securities Lending Committee

² Bank of New York

* Corporate Assets include large amounts of non-lendable securities. Adjusted utilization is 5-8%.

Program Name: Debt Management

Program Cost:	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>
State Funds	\$217,530	\$236,834	\$279,659	\$353,666
FTE's:	4	4	4.15	5.4

Program Goals:

- Coordinate communications with bond-rating agencies to maximize the State's credit rating.
- Manage all debt issues for the State, its agencies and institutions to optimize debt structure and assure timely debt payments.
- Assure compliance with legal requirements, including Arbitrage Rebate and Constitutional Debt Limit.

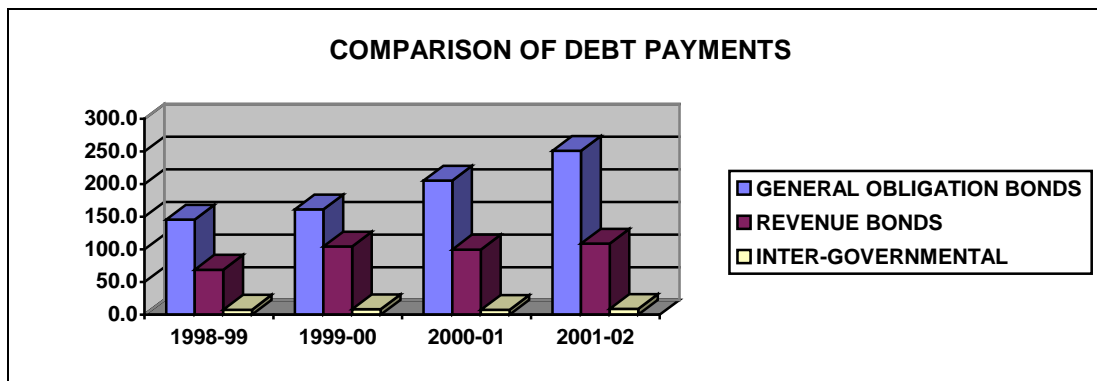
Program Objectives:

1. Pay all debt on time.
2. Analyze the markets and structure the debt to assure the lowest rate of interest is paid.
3. Close all debt issues by the required deadline.
4. Process all Capital Improvement Project draws as requested by the agencies.
5. Process all South Carolina Housing Finance and Development Authority and Education Assistance Authority transactions as requested by the agencies
6. Assure outstanding debt does not exceed the State's constitutional debt limit.
7. Provide information to the credit agencies on a timely basis.

Key Results:

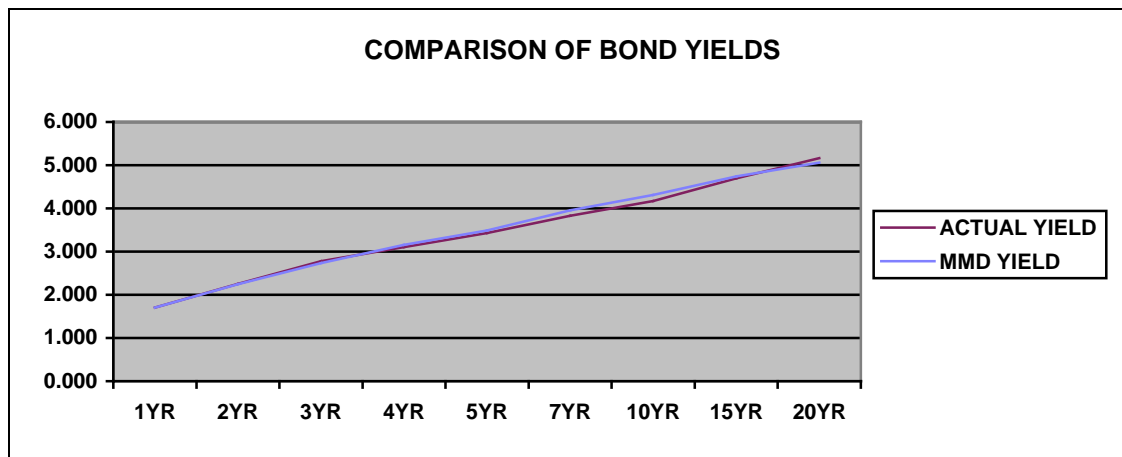
1. All debt payments were promptly made and compliance with Federal arbitrage requirements was certified.

<u>Workload (millions):</u>	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>
General Obligation	\$145.7	\$161.2	\$205.5	\$250.9
Capital Improvement ¹	124.8	128.8	145.3	136.6
Revenue	68.9	104.4	99.8	108.9
Inter-Governmental	7.6	8.2	7.3	8.7



¹ Also included in General Obligation

2. On a composite basis, all general obligation debt was issued at yields favorable overall to Municipal Market Data (MMD) yields. For the fiscal year, the overall yield on general obligation debt issued was 4.095%, as compared to the MMD yield for the same period at 4.156%.



2. All new bond issues were closed as scheduled.

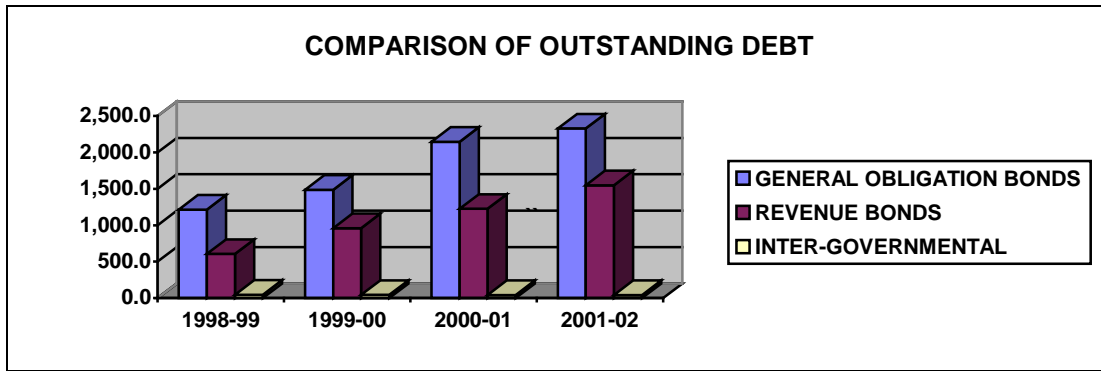
<u>Workload:</u>	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>
New General Oblig.	2	4	7	7
New Revenue	6	6	13	7
New Inter-Government.	3	2	1	0
Total Issues Closed ²	11	12	21	13
Bond Issues Defeased	2	0	0	1

3. Comparison of Outstanding Debt.

<u>Workload (millions):</u>	<u>FY 1998-99³</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>
General Obligation	\$1,214.6	\$1,487.4	\$2,146.7	\$2,328.6
Revenue	604.9	959.9	1,224.7	1,548.6
Inter-Governmental	45.1	41.9	40.7	40.9
Total Issues Managed	149	125	120	117

² In addition, the STO serves as advisor on some issues for which the office does not serve as Trustee. Those issues represent additional workload not reflected in this schedule.

³ FY99 included some issues on the Debt Management System for which the Treasurer does not serve as Trustee. Subsequent years exclude such issues.



4. All agency requests to draw bond proceeds were processed within 24 hours of receipt.

<u>Workload:</u>	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>
Capital Improvement Bond Draws and Refunds	2,814	2,381	5,734	3,727
Amount of Capital Improvement Draws and Refunds (millions)	\$304.0	\$526.2	\$1,083.9	\$696.2

5. All South Carolina State Housing Finance and Development Authority and Education Assistance Authority transactions were processed within 24 hours as requested by the agencies.

<u>Workload:</u>	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>
Number of Housing Authority and Education Assistance Authority Daily Transactions	1,244	1,549	2,527	2,407

6. The debt management division performs impact analyses on debt limits in response to various borrowing proposals considered during the budget process. These analyses are generally provided within one business day of the request.
7. The State Treasurer maintains frequent contact with the rating agencies and responds to all requests for information on a timely basis. The State Treasurer provided and personally presented an extensive analysis of the State's fiscal position in June, 2002.

Program Name: Unclaimed Property Program

Program Cost:	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY2000-01</u>	<u>FY2001-02</u>
Other Funds	\$697,537	\$734,146	\$707,704	\$988,136*

* Includes \$275,473 used under Proviso 72.76 (Flexibility) to maintain critical programs previously funded with General Fund appropriations

FTE's:	7	7	7	6 FT/ 2PT
Temporary Employees	6	4	4	1

Program Goals:

- Public awareness of the program.
- Make payment of funds to rightful owners in most efficient manner.
- Process receipt of unclaimed funds from holders.
- Meet or exceed budget projections for General Fund transfer.

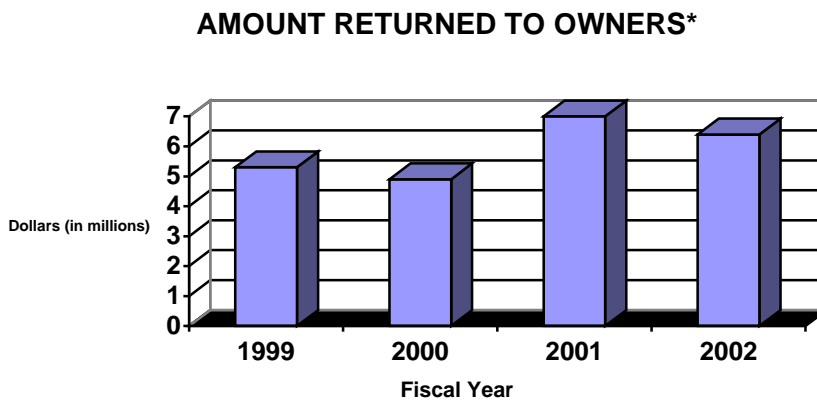
Program Objectives:

- 1) Increase public awareness of the program utilizing the most efficient methods.
- 2) Provide and promote services via the Internet thus making it easier for the public to submit claims while keeping the cost of services down.
- 3) Increase the return of property to the rightful owners through aggressive outreach programs.
- 4) Decrease the turnaround time necessary to pay a claim.
- 5) (a) Increase compliance with the Unclaimed Property Act by increasing the number of holders filing an annual report and (b) increase the number of holders that report electronically, thereby reducing the risk of input errors, the cost of processing reports, and the time between the receipt of the property and making it available for claims.
- 6) Analyze the reserve requirements for paying expenses and claims and increase the amount of unclaimed funds turned over to the General Fund, if possible.

Key Results:

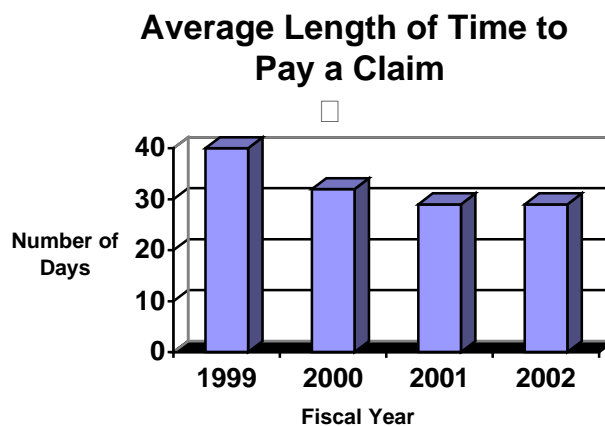
1. Increased the probability of money being claimed by rightful owners through:
 - a) Expanded television coverage to include weekly unclaimed property listings with stations in Beaufort, Charleston, and Spartanburg.
 - b) Collaborated with the Rock Hill Herald to run listings weekly.
 - c) Continued production of weekly "Big Money Mondays" on WLTX TV in Columbia, which joined owners with their funds and increased public awareness of the Program.
2. Promoted use of Internet services (i.e., database search for property, printing of claim forms, holder electronic reporting) through television and newspaper at outlined in Number 1 above. In FY02, 6,955 potential owners inquired about property accounts via the Internet. Of those who made inquiries, 1,509 printed claim forms on the Internet. Use of the Internet by potential owners reduces the number of incoming telephone and mail inquiries. Providing claimants the ability to print claim forms themselves eliminates the time and cost of printing and mailing the claim forms.

3. Continued to place special emphasis on finding owners of the larger sums (over \$1,000) of unclaimed property. Of the \$6.4 million paid in claims in FY02, \$319,000 was paid as a result of these targeted research efforts to locate these owners of the largest amounts. Although the overall dollar amount of claims paid decreased by 8.5% from the previous year, that percentage can be skewed by the amount and timing of reciprocal claims paid to other states that are included in the overall claims paid amounts. There were a significant number of such reciprocal claims paid after July 1, 2002 which were therefore not including in the FY02 claims paid amount. In the future we will attempt to break these amounts out separately for statistical purposes.



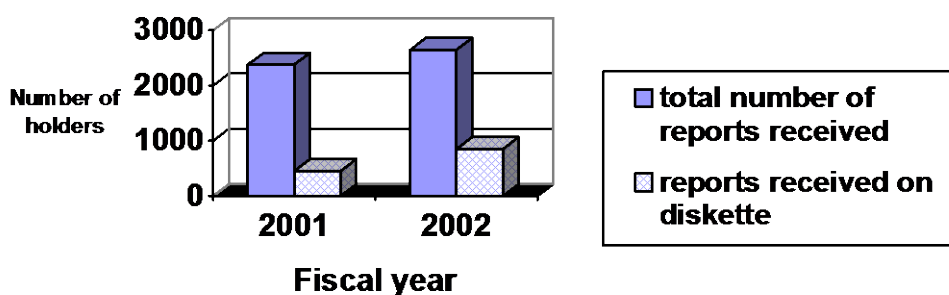
*The amount of claims paid will fluctuate from year to year contingent upon: the amount of media attention the program receives; the frequency and success of public outreach efforts; the amount of reciprocal payments made to other states; and/or an unusually high one-time holder remittance (which results in unusually high claims in the period immediately following the remittance).

4. Despite the decrease in the number of Program employees, the average length of time to pay a claim was maintained at 29 days in FY02.



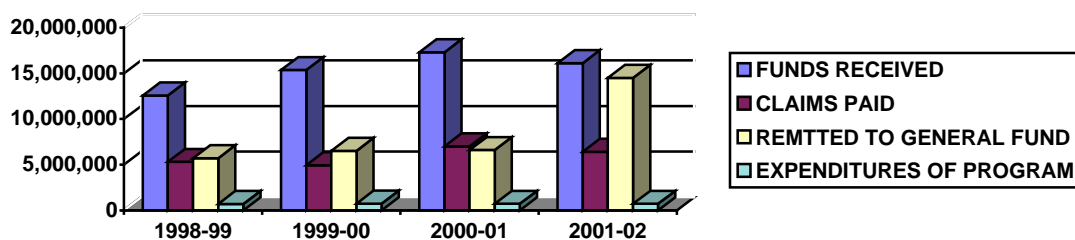
5. a) Through proactive outreach efforts (communications and training) with the holder community, increased the number of holders reporting unclaimed property. Compared to FY01 in which 2379 holders filed reports, 2647 holders reported in FY02.
- b) Increased the number of holders filing reports electronically from 452 in FY01 to 849 in FY02. Nearly a third (32.1%) of holders reporting in FY02 reported electronically compared to 19% in the previous fiscal year. This further reduced the percentage of reports that had to be manually keyed.

TOTAL NUMBER OF HOLDERS REPORTING/ HOLDERS REPORTING VIA DISKETTE



6. Based on analysis of receipts, claims experience, expenditures of the program, and reserves necessary, the STO regularly reviews the amount available for transfer to the General Fund. During the fiscal year the STO was able to make a one time additional transfer of funds to the General Fund of \$6,500,000 (in addition to the projected \$8,000,000 transfer) without jeopardizing the amount available to pay claims.

3 YEAR COMPARISON OF SOURCES AND USES OF FUNDS



**Program Name: South Carolina Tuition Prepayment Program
South Carolina College Investment Program (Future Scholar)**

Program Cost:	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY2001-02</u>
Appropriation	\$238,597	\$0	\$0	\$0
Other Funds	\$15,717	\$375,368	\$415,383	\$405,067
FTE's:	3	3	2	2.3

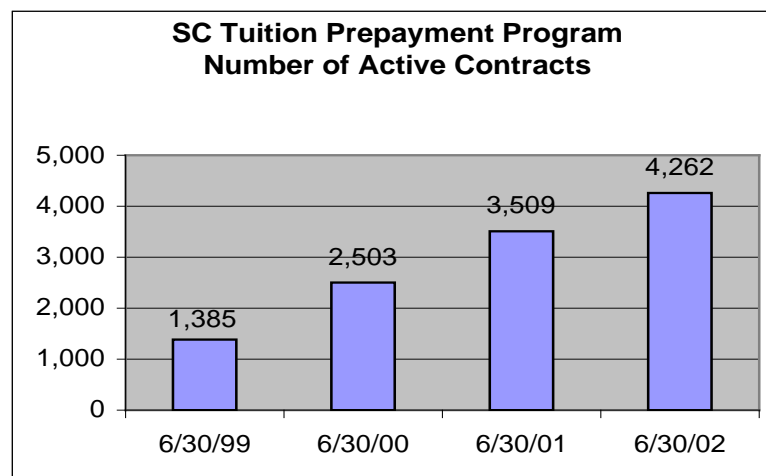
Program Goals: Expand public awareness of the programs.
Efficiently process college account applications.
Efficiently manage account collections until matriculation.
Retain existing account holders until matriculation.
Efficiently process matriculation and refund payments.

Program Objectives:

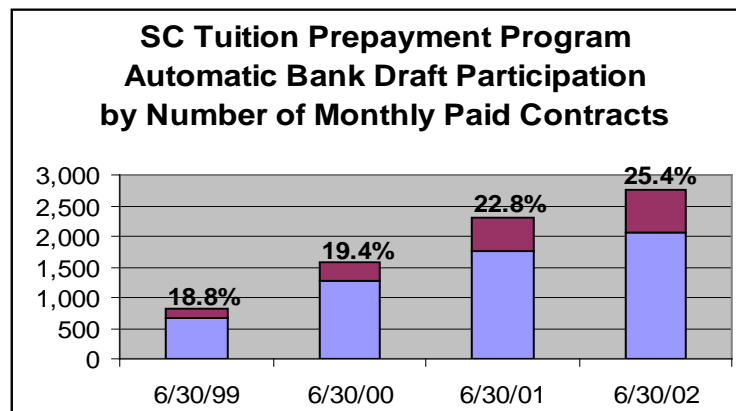
- 1) Increase public awareness of the programs utilizing the most efficient methods.
- 2) Expand services available through the Internet thus making it easier for the public to submit applications and make account changes.
- 3) Increase participation in automatic draft payment options.
- 4) Steadily increase number of accounts to maintain stability.
- 5) Increase program flexibility and options for families interested in college savings.
- 6) Analyze the cash flow expectations for the Tuition Prepayment Program and formalize investment policy for sustaining program soundness.

Key Results:

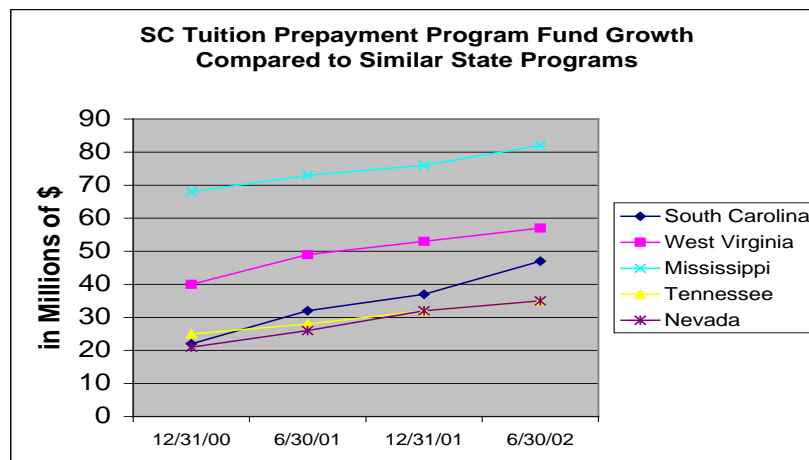
- 1) Increased participation in the Tuition Prepayment Program:
 - a) An additional 887 families joined the Program during the annual enrollment period.
 - b) Program contract cancellations represented only 9.7% of total contracts sold as opposed to the national average of 10%-12% according to the College Savings Plan Network.



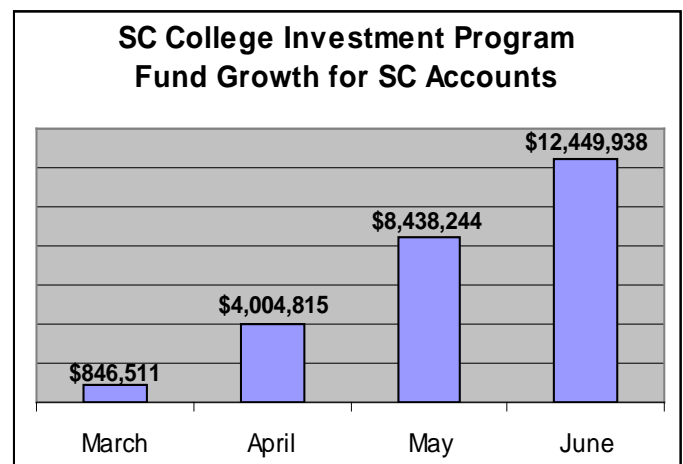
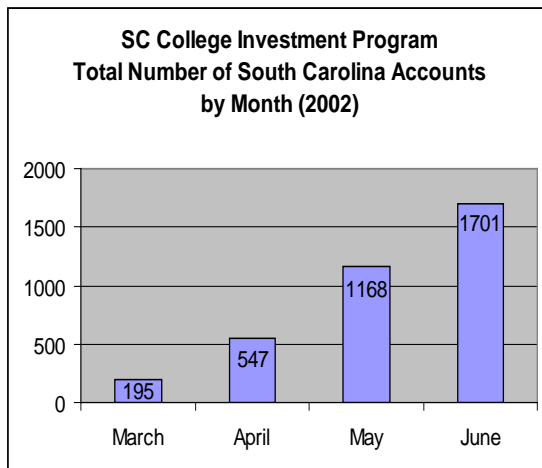
- 2) Increased information available through the Program web site so that interested parties may compare current tuition and Program costs with anticipated future college expenses, link directly to South Carolina's public colleges and universities, and print enrollment forms.
- 3) Increased number of SC Tuition Prepayment Program contract holders that make monthly payments through automatic bank draft, reducing overhead expenses associated with manual posting of incoming checks.



- 4) Experienced steady growth in Tuition Prepayment Program Fund due to continued monthly contributions, lump-sum payments on new contracts, and investment earnings.



- 5) Implemented the South Carolina College Investment Program and opened 1,701 savings accounts for South Carolina Families.



- 6) Established growth patterns for the College Investment Program competitive to those of other states with similar programs. The states were selected for comparison due to the comparable program features, population size of the state, and length of time the program has been in existence.

